

EU INTERNATIONAL TRADE IN TODAY'S ENTROPIC WORLD ECONOMY. A RESILIENT NEO-PROTECTIONIST PERSPECTIVE

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Abstract

As political events in EU and all across the world unfold in a less and less predictable manner, we witness a de facto return of the most developed economies to various stages of neo-protectionism, mainly of non-tariff consistence. The WTO's global trade liberalism, approach that was also the blueprint of EU's economic policy during a long period of time, seems to be somehow worn out today. Our paper tries to identify those coordinates that could be described as optimal in the process of evolution of the domain towards strengthening the protection of EU's single market and meanwhile not jeopardizing European international trading chances through various retaliation effects. We attempt to illustrate our view through some Romanian examples of the economic trade-off implied by the liberalization of the domestic market following EU membership.

Keywords: international trade, EU single market intra-trade, liberalization, protectionism, competitive advantage.

JEL Classification: F 13 Trade Policy. International Trade Organizations, F15 Economic Integration, F43 Economic Growth of Open Economies, F63 Economic Development

Preliminary

We conduct this investigation during a time when both exogenous, mostly political factors, but definitely also endogenous, mostly developmental factors, re-shaped the world trading patterns of the last

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decades, as designed within the more and more liberal frameworks of GATT, WTO, EU or other significant bilateral or multilateral agreements. Far from engaging ourselves in the challenge of identifying all those factors that are illustrative indeed for this process, we would like to shape this research on the grounds of the following three characteristics of the world trade today, characteristics we believe to be relevant for the Romanian and also EU context. First of all, we are witnessing today a massive switch of the critical mass of the world trade, from the traditionally developed economies towards several emerging ones, or regionally clustered economies, with dramatic consequences in the areas of fragmentation of production, industrial specialization in some areas along with deindustrialization in complementary areas, or miscellaneous non-economic effects.¹ Nevertheless huge income discrepancies among countries will persist, indicating the fact that practically all the growth and development scenarios elaborated during these recent years were far from achieving their goals.

Secondly, the trade flows of today, freed by many of the traditional tariff burdens changes day by day. The value added becomes clearly a factor of crucial importance and the decomposition of exports, imports, re-exports and re-imports, in terms of value added, becomes relevant not only when investigating the efficiency of the international trade, but as an indicator of the sustainability of a certain growth model, adopted by a specific country.² Depending on their ability to detect the economic impact of various layers of the foreign trade, some countries would succeed in designing an adequate policy of the kind while others would fail and witness on the long run the diminishing of their wealth, though being net exporters. Last but not least, a succession of events, but specifically the global financial and economic crisis

¹ Johansson Asa, Guillemette Yvan, Murtin Fabrice, Turner David, Nicoletti Giuseppe, Maisonneuve Christine, Bagnoli Philip, Bousquet Guillaume, Spinelli Francesca, "Long-Term Growth Scenarios", *OECD Economics Department Working Papers*, No.1000, 2013 pp. 5-6 [<http://www.oecd-ilibrary.org/docserver/download/5k4ddxpr2fmr.pdf?expires=1470119979&id=id&accname=guest&checksum=7A70D7E8B156BA5F70CE7A8B42A1EA19>], accessed 01.08.2016.

² WTO, Trade in value-added and global value chains: Explanatory notes, 1/2015, pp. 2-3, at [https://www.wto.org/english/res_e/statis_e/miwi_e/Explanatory_Notes_e.pdf], accessed 02.08.2016.

that hit the world in 2007-2009, jeopardized the chances of evolving as planned only a couple of years before towards real convergence in the largest single market of the world, namely EU. After almost a decade of boost induced by the introduction of the single currency, with the EU intra-trade still expanding, as the Union enlarged during the 2000s, EU's external trade started to show structural weaknesses. Productivity and overall European competitive advantage on the world trading stage is obviously decreasing as benchmarked to East Asia or North America.³ The operational hypothesis here would be that international trade would increase in relative terms, as benchmarked to the increase of intra-trade, therefore a debate concerning the assets and liabilities of a new kind of protectionism, EU scale, seems appropriate.

EU - a champion of world trade liberalization

Following the post WW II experience of the implementation of the *Marshall Plan* and since the merger in 1967 of the three initially independent institutional pillars (ECSC, EEC and EAEC) into EEC, the creation of the *European Single Market* went steadily ahead. This evolution could not be conceived other than analyzing the gradual departure from the historical protectionism that was illustrative for most of the European countries and the open switch towards free trade support. The fact that most European countries, EEC or EFTA members, or, and this statement clearly positioned from a peculiar angle, even CMEA ones, praised the benefits of various layers of trading integration, at least the abandonment of tariffs, common external tariffs, contributed in time to the aggregation of the so called *Single European Act* (SEA), act gathering more than 300 specific measures at the end of the 80s and the inception of the 90s. The fact that precisely during this period Europe got politically reunited gave another strong boost to the process, through whatever transition towards free market meant for the democracies of Central and Eastern Europe. But in fact it was the ineluctable process of globalization that both explicitly and insidiously became relevant for more and more areas of the world, a process objectively forging the

³ Eurostat, International trade statistics introduced. Main statistical findings, 2016, at [http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_statistics_introduced], Accessed 01.08.2016.

ultimate propensity of EU to take the same kind of trading principles externally as adopted internally.

The reality that EU acknowledged GATT, and since 1995 WTO's global liberal arrangements shows the Union's dedication to the fundamental principles of non-discrimination, lowering to the maximum possible both tariffs and quotas, build a more competitive and reasonable predictable international business environment. EU and WTO also share two other trajectories, both critical at this start of the millennium: actively supporting the less developed countries and eradicating poverty worldwide on the one hand, protecting the environment through the priority given to the sustainable development on the other.⁴ Acceding to various international organizations' policies as an economic block, organizations such as UNDP, WTO, ILO, OECD, to name only a few with global economic exposure, is in fact a serious and complex challenge of representing often divergent interests and balancing between general principles and peculiar interests, a task that was one of the most difficult to undertake by the Union during the last decades, especially since enlargement towards CEE.⁵ But however difficult this process appeared to be in time EU managed to become the first regional trader, with exports totaling 33% of the world trade in 2014, followed by NAFTA with 14% and ASEAN with 7%.⁶ This situation should be judged in connection with the reality that toady about 2/3 of the European trade flows are actually branded as domestic, being intra-EU trade.

EU could be easily considered a champion of the free trade also due to some specific features that gave trade among European nations an impetus that was simply not possible elsewhere, precisely due to the lack of these specifics. First of all is the fundamental principle inscribed even in the founding *Treaty of Rome*, namely the interdiction to provide state aid as distorting a fair competition. Secondly the significant reduction of direct costs, due to a plethora of factors such as: adopting common technical standards, adopting and constantly updating incentive *Common Customs*

⁴ Andreas R. Ziegler, *Trade and Environmental Law in the European Community*, Oxford: Clarendon Press, 1996, pp. 231-238.

⁵ I.M. Anghel, G. Silași, A. D. Crăciunescu, *Diplomația Uniunii Europene (și regulile acesteia)*, București: Universul Juridic, 2015, pp. 248 -256.

⁶ WTO, *International Trade Statistics 2015*, 2/2015, pp. 26; 50, at [https://www.wto.org/english/res_e/statis_e/its2015_e/its2015_e.pdf], Accessed 03.08.2016.

Tariffs (CCT), creating in 1985 and expanding the free circulation *Schengen area*, and last but not least the adoption in 1999 of the single currency *Euro*. It is beyond doubt that many assets of this liberal approach were in fact accompanied by economic liabilities that was translated into the still in place *opt-out system*, the incomplete and operational difficult *Euro-area*, to a certain degree to the unwanted degree of monopolization of the single market in some industrial areas and even to the incomplete removal of various regulations jeopardizing free trade by translating them from the national level to the Union's. As the ongoing TTIP and CETA negotiations show, there is an increasing level of discontent towards multilateral agreements that are seen less as trading opportunities and more as menaces to economies already weakened by crisis, migration waves and external factors such as terrorism.

Regional integration and world fragmentation

Could we interpret this outcome, seen here from a trading angle, as a temporary setback, due to exogenous factors or as an endogenous fault in the design of the *Single Market*, left heavily unprotected against tendencies such as de-industrialization? As a recent OECD conducted study, forecasting the evolution of the world trade in the following 50 years revealed, usually countries showing propensity for accelerated liberalization of the world trade, initially engage in regional schemes of the kind. 38 countries are identified as falling in this category till 2030, EU 28, EFTA, NAFTA, Australia, New Zealand and Japan,⁷ and all of them though "embarking" on the liberalization trajectory, have good reasons to be less enthusiasts concerning tariffs. Analyzing the growth projections of the 42 OECD countries, along with other 105 developing economies as investigated by the *Centre d'études prospectives et d'informations internationales* and modeling trade as *MIRAGE (Modelling International Relationships in Applied General Equilibrium)* a computable general equilibrium model for trade policy

⁷ Jean Chateau, Lionel Fontagne, Jean Foure, Asa Johansson, Eduardo Olaberria, "Trade patterns in 2060 world economy", *OECD Journal: Economic Studies*, 2015, pp. 68-69, at [http://www.keepeek.com/Digital-Asset-Management/oced/economics/trade-patterns-in-the-2060-world-economy_eco_studies-2015-5jrs63llqgjl#.V6Ax79KLQdU#page3], Accessed 03.08.2016.

analysis, with such parameters as GDP, labor supply, savings, etc.,⁸ relevant conclusions are drawn in order to sketch trade scenarios under imperfect competition, that are more or less consistent with the forecasted juncture of the world economy. One of the main findings is that regional liberalization, EU type, would eventually bring more benefits than global liberalization of the trade, at least for the developed countries.

A first and quite emotional answer to such a statement would be that this is a valid argument for what the anti-globalists and not only call *Fortress Europe*, namely a regional organization that promotes complete freedom within its borders but is reluctant to be just as open outside the borders. The concept has been vigorously revisited following the migrant crisis.⁹ If one considers the difficulties of implementing the single market for services, and even more difficult the labor single market (difficulties culminating with the *Brexit*), if one adds the strong necessity to re-industrialize EU, following the migration of most of its manufacturing sectors towards more cost effective areas, the answer could be again affirmative. But just as in the case of the potential abandonment of the *Schengen* facility, today more than a commercial feature, but already an epitome of EU, facing the influx of economic migrants, just as in the case of the potential giving up of the Euro, following financial distress, as in the Greek case, the decision should be taken only in a larger, developmental framework, that would inevitably indicate also the political consequences of such a strategic move. The tense political situation in today's Europe could be significantly worsened by EU's new stiffness in this respect. But frankly put this does not mean that such an approach would be inconsistent with the policy adopted in various periods by important trading countries such as USA, China, Japan or Russia.

The *Treaty on European Union* (TEU) signed in 1992 in Maastricht is commonly known for the so called *Maastricht criteria*, allowing or not a certain country to adopt the Euro, but it embeds also extremely important

⁸ Mohamed Hedi Bchir, Yvan Decreux, Jean-Louis Guérin, Sebastien Jean, "MIRAGE, a Computable General Equilibrium Model for Trade Policy Analysis", CEPII, No.17, 2002 pp. 27-29, at [http://www.cepii.fr/PDF_PUB/wp/2002/wp2002-17.pdf], Accessed 04.08.2016.

⁹ Stefan Lehne, "The tempting trap of fortress Europe", *Carnegie Europe*, April 21, 2016 at [<http://carnegieeurope.eu/2016/04/21/tempting-trap-of-fortress-europe/ixdx>], Accessed 04.08.2016.

provisions concerning the main targets of EU's trade policy. Defining EU's economy as an open economy, eager to become more competitive over the global stage, acknowledging the fact that multilateral trade issues today should be dealt under the auspices of WTO's *Doha Development Agenda* (DDA) the treaty is the epitome of the openness of the Union's external trade policy. The ongoing TTIP and CETA negotiations add weight to this statement. But if we observe the evolution of commodity and services flows from and into EU during the last two decades, the overall capital and FDI flows and the crucial emigration-immigration balance, it turns that the ideal of EU to become more competitive as benchmarked to the major trading players of the world is far from being achieved. On the contrary, many of the traditional European comparative advantages are evidently slipping away. It is not by chance that the prestigious *Journal of European Integration* entitled its special issue dedicated to the 20 years anniversary of the treaty *Maastricht Treaty: Second Thoughts after 20 years*.¹⁰ Therefore and grounded on these facts, the option to follow the same track, along the present day coordinates as in the near past seems at least debatable. More internal integration, with all its evident benefits, is not reflected in assets to be found through international trade.

The option of reconfiguring EU's trade policy

In a relatively recent book some reputed authors are asking themselves why the liberal and neo-liberal ideas seem to be so resilient in the European economic environment of the last quarter of century.¹¹ The failure to deliver the forecasted results shows a significant difference between the rhetoric of policy deciders and the terrain day by day reality. We believe this concept of resilience is appropriate indeed for the outlook of the EU's external trade policy. As the classical liberal vision of building the economy grounded on free trade, could be retrieved both in the mainstream of

¹⁰ *Journal of European Integration*, Maastricht Treaty: Second Thoughts after 20 years, Taylor and Francis Online, Volume 34, Issue 7, 2012 at [<http://www.tandfonline.com/toc/geui20/34/7>], Accessed 05.08.2016.

¹¹ Vivien A. Schmidt, Mark Thatcher, "Theorizing ideational continuity: The resilience of neo-liberal ideas in Europe", in Schmidt, V.A., Thatcher, M., Eds., *Resilient Liberalism in Europe's Political Economy*, Cambridge: Cambridge University Press, 2013, pp. 1-10.

economics but also in most heterodox approaches¹² since the early 90s a libertarian view with monetarists inflexions combined with a *sui generis* neo-Keynesian policy (at least in the Central and Eastern European countries) was common. This truly resilient view of the overall development of EU's economy often contradicted the liberal trade policy, especially after *Maastrich* inducing mixed results throughout the Union. As we observe the evolution of the CEE external trade in the 80s, it is not out of place to notice that CEE of the late XX-th century could be retrieved in the economic archetype represented by the XIX-th century Germany.¹³ This historical comparison is somehow enhanced by the already observed negative signals given by United Kingdom, signals that gave birth to the *Brexit* more than 20 years later. Is such an argument enough in order to believe that a *neo-Listian* type of protectionism, EU scale, would be an appropriate answer to the present day economic problems in EU?

Definitely not at first sight, but if one takes into consideration the latest evolutions on the world political stage, the answer could be certainly much more elaborate. A recent study of the reputed think tank *Moody's Analytics* underlines the radicalism embedded in Donald Trump's electoral statements when it comes to migration and trade. If this vision, grounded on the heavy criticism of the creation of NAFTA in the early 90s, USA's endorsement of China's WTO membership in the early 2000s and the present stage of TTIP negotiations with EU is to become an official US trading policy during the next couple of years, then we can expect that also significant retaliatory policies to be conceived. Such as imposing an average 45% tariff on imported Chinese commodities until China will abandon the policy of keeping its currency artificially low, in order to run important surpluses in the trade with US. Or, a 35% tariff on goods that are manufactured in the neighboring Mexico by American companies that systematically outsource jobs outside the country.¹⁴ The other main source of concern in this respect

¹² Mark Skousen, *The Making of Modern Economics. The Lives and Ideas of the Great Thinkers*, London & New York: Routledge, 2001, pp. 103; 455.

¹³ Paul Kennedy, *The Rise and Fall of the Great Powers. Economic Change and Military Conflict from 1500 to 2000*, London: Unwin Hyman, 1988, pp. 471-474; 482-484.

¹⁴ Mark Zandi, Chris Lafakis, Dan Wite, Adam Ozimek, "The Macroeconomic Consequences of Mr. Trump's Economic Policies", *Moody's Analytics*, 2016, pp. 3; 6-7; 9-10; at

comes from China, but has a completely different macroeconomic consistence. As a *McKinsey Global Institute* comprehensive research indicates, China is on the brink to change radically its economic model, which is ripe for a productivity push, since the average productivity would be still less than one third of the OECD's average, while the country made a huge technological leap during the last decades.¹⁵ Such a strategic move cannot be successful without significant consequences for the trading model of this extremely important global exporter.

The classic, liberal vision concerning the world trade of the 90s has been already shaken by the crisis and later on by the various political events that enhanced the entropy of the global economy, at unprecedented levels. But we must notice that already during the early 2000s specialists differentiated between regionalization and globalization, admitting that some form of regionalization could oppose liberalization, acting as vehicles of trade diverting.¹⁶ While the common opinion was that expanding regional trade would have impacts at global level and consequently regionalization would be nothing but a specific form of globalization, this assessment could be interpreted in various ways if we are dealing with the European case. There is no other economic model throughout the world comparable to EU. So, both the historical and geographic best practices that could calibrate the European policy of the kind might be irrelevant. Just as EU adopted a completely different approach as the US when it comes to the default policies following the crisis, a more or less limited in time departure from the global, WTO type of policies could be a decent answer today. Not only to the job saving leg of the economic process, but also to the strong need to re-industrialize Europe, in order not to lose completely those features of the economic framework that were created with the support of the industrial civilization that emerged precisely here and then spread across the world. If

[<https://www.economy.com/mark-zandi/documents/2016-06-17-Trumps-Economic-Policies.pdf>], Accessed 25.07.2016.

¹⁵ Jonathan Woetzel, Yougang Chen, Jeongmin Seong, Nicolas Leung, Kevin Sneader, Jon Kowalski, "Capturing China's \$ 5 Trillion Productivity", *McKinsey Global Institute Report*, 2016, at [<http://www.mckinsey.com/global-themes/employment-and-growth/capturing-chinas-5-trillion-productivity-opportunity>], Accessed 26.07.2016.

¹⁶ Spyros Economides, Peter Wilson, *The Economic Factor in International Relations*, London, New York: I.B. Tauris Publishing, 2001, pp. 165 – 174.

such a move could be branded as neo-protectionist and accordingly sanctioned by EU's main trading partners, this is probably a risk that European policy makers should evaluate soon.

A Romanian perspective

Debating a topic such as protectionism cannot be properly done in Romania prior to invoking the contribution of Mihail Manoilescu to the theory of the domain.¹⁷ A strong advocate of industrialization, of the creation of a real middle class and valuing autarky as a mean to expand domestic demand and market, Manoilescu's works, though circumscribed to the economic juncture of the interwar years and to the political limitations of the epoch, impacted significantly on the development of several Latin American countries in the post-war period, but eventually on Romania's development, somehow paradoxically, during the years of communist regime. To what extent is still valid such a view, that once purged by any ideological component would include the main topics that are today critical for the Romanian economy, again this is debatable. But we must acknowledge that job creation, reinstatement of industry as the main output provider and overall developing with a growth engine that favors a proper balance between domestic consumption and export are current priorities of the country. To a large extent, an approach that would be slightly more leaned towards the domestic market, both in terms of output and demand, and less on foreign trade, would be a direct consequence of the inappropriate economic policy conducted during the early years of introducing market economy and free competition. At that point, the inability to maintain at least some strategic tracks that would prevent the demise of most of the industry, created the potential for emigration less than a decade later, due to the lack of jobs domestically. And this opened a vicious circle that started in the 2000s and can be observed even today. The country has one of the most liberal trade policies, FDI frameworks, land acquiring provisions and completely endorses EU economic policies, even those that are mandatory only for the *Eurozone*.

¹⁷ Mihail Manoilescu, *Forțele naționale productive și comerțul internațional. Teoria protecționismului și a schimbului internațional*, București: Editura Științifică și Enciclopedică, 1986.

A relevant indicator for the efficiency and overall economic impact of the Romanian foreign trade could be found analyzing this trade in value added and the creation of global value chains, addressed to both developed economies and developing ones.¹⁸ Admittedly, it is difficult to evaluate how trade liberalization under the aegis of the political demand to join NATO and EU contributed to the increase of welfare of the country. Or, to put it in counterfactual terms, how would have been the economic outlook if a more domestically centered model (as for instance the Polish one) would have been in place. But the reality that the country lost most if not all significant non-EU trade destinations could be interpreted as a major liability during a time when the European construction and institutionalism is at stake. There is no other example, within Central and Eastern Europe, of a country so willingly abandoning its decades long earned trading assets as Romania.¹⁹ The almost permanent oscillation between liberalism, sometime even with libertarian flavors and a neo-Keynesian policy that was no more than a perverted reflection of the former political regime's view, made a lethal concoction for the Romanian economy for most of the 90's and 2000s. Apparently it is the crisis that triggered the interest for revitalizing the endogenous components of the economy instead of accepting without any critical interpretation the exogenous, mainly EU but inevitably also global components shaping our economic life.

As a strong voice of Romania's integration within EU's structures devised the term, following the crisis, we are about to witness "the great re-configuration" of the European economic model.²⁰ It would be obviously an oversimplification to say that through a foreseen treaty EU would have to opt between the liberal, sometime branded as *anglo-saxon* model and the real *social market economy* that was for too many years no more than an empty of content slogan for EU. Nowadays many European nations are backing the idea that the *Europe of nations* should not be replaced by the *Europe of*

¹⁸ WTO, Trade in value-added and global value chains: statistical profile: Romania, 3/2015, at [https://www.wto.org/english/res_e/statis_e/miwi_e/RO_e.pdf], Accessed 02.08.2016.

¹⁹ Mircea T. Maniu, "Reconsidering the Adoption of the Euro in Today Romania", in Adrian C. Păun, Dragoș Păun, eds., *The convergence of Diversity. The European Model*, Cluj-Napoca: Presa Universitară Clujeană, 2014, pp. 281 – 287.

²⁰ Vasile Pușcaș, *Uniunea Europeană. State-Piețe-Cetățeni*, Cluj-Napoca: Eikon, 2011, pp. 151-155; reprinted from *Foreign Policy Romania*, September 2011 issue.

multinationals with all the implications deriving from such a drift. Summing up all the data concerning Romania at our disposal, we would endorse such a view and would state that a first relevant move towards such an outcome would be precisely the revisiting of the trade mechanisms and policies. Far from suggesting a withdrawal in national autarky, we strongly support launching a nationwide debate concerning the options that the Romanian economy would have today over the European and global markets. In our opinion today we can observe, throughout Europe and obviously in our country too, a new equilibrium between the national coordinates of the economic life and the European ones. And an already reached social critical mass in order to approach these matters rationally and professionally.

Conclusions

The constant changing patterns of the recent global economic evolution have created a lot of challenging perspectives for the future evolution of the EU trade and its global future role as one of the most important international player. Debating the future challenges that lies ahead for the EU in the context of the international economic flows we should take into consideration here some of the recent events that will reshape, change or at least influence the future of the global trade trends, opportunities and frameworks. Such example are related to topics concerning the latest evolutions on the world political stage, the important yet unknown economic medium and long term future implications of the recent Brexit, the demographic important and significant changing demographic evolution – ageing of the population with its important effects generates on the long run for the stability of the fiscal policies and for the flexibility and productivity of the labor market. Moreover, we should underline here the changing role and future potential influence played by countries like Turkey (its new future approach towards different economic trade partners and even more so towards the EU), or we can add here China as one of the most important and influential actor and its recent slight slowdown of its economic growth.

Achieving a higher level of competitiveness will raise many challenges due to the fact that currently the economies of the Member States are differently developed from the competitiveness point of view and by this

classified in the international rankings at different hierarchical levels with considerable distance between the places occupied (examples: Finland-4th and Germany-5th or Croatia 77 and Greece 80, etc.²¹

The European policy makers, in order for the EU to become more competitive as a whole in the near future, should take into consideration when trying to generate adequate provisions concerning the main targets of EU's trade policy by the global nowadays realities concerning: the access to the limited resources (we refer here primarily to the natural ones and in particular the energy for instance), or the constant increasing government debt and high fluctuations in flows of capital for a series of global economies facts that have already created a series of important negative effects during the past 2008 financial crisis.

As we have already mentioned one of the most relevant indicators for the efficiency and overall economic impact of the Romanian and also EU foreign trade could be found by analyzing the trade expressed in terms of its value added and the creation of global value chains, addressed to both developed economies and developing ones. Related to this, and also to the highly debated topic of the reindustrialization process of the EU we should underline here the importance of the future construction of the EU industrial policies, based on the fact that the European Union will also have to try to ensure a higher level of competitiveness in sectors such as energy or the environmental protection in order to be able to support innovation policies and educational targeted ones due to the constantly rising level of global competition.

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²¹ WEF, The Global Competitiveness Report 2014–2015, Editor: Klaus Schwab, Geneva, 2014, p.14-15, [http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf], Accessed 5.07.2016;

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